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# Global Switching Behaviour – Trends & Explanations

Dr Philip E. Lewis  
Group Director, vaasaemg



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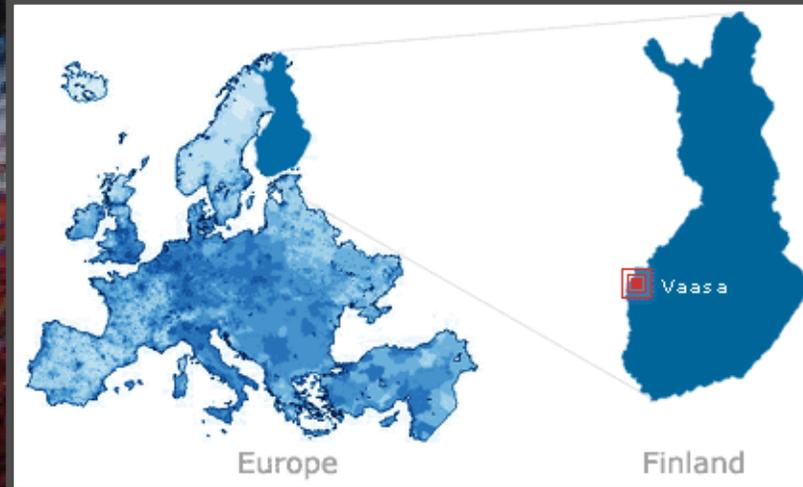


**World's leading university-based  
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**8 years of specialisation**

**Consultants to 300 clients including  
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customers in 45 countries around  
the world**



# Judging Market Competitiveness

Criteria		Indicative Measure	
Full market opening	Market share among competitive retailers	The percentage of customers supplied by competitive retailers	
	Customer returns to regulated rate options	The number of customers switching back to their regulated utility	
Presence of active mass market retailers	Number of active retailers	The number of active competitive retailers	
	Retailer entries	The number of new retailers entering the mass market	
	Retailer exits	The number of retailer exits	Fewer than entries
Healthy levels of customer switching	Customer switch rate	Proportion of customers changing from one competitive retailer to another per quarter, or in the USA from a regulated incumbent to a competitive retailer	5% or higher
Trading off price for value	Range of product offers	The range and types of offers provided and the number of customers able to take these up	5 or more products for 100% of customers
	Wholesale/retail price spread	Gross retail margin as a % of retail revenue	10%
The customer experience	Customer awareness	Proportion of customers who know they have choice and can exercise it	25% or higher
	Customer satisfaction	Proportion of customers satisfied with their retail supplier, the switching process, the available product choices and prices	90% or higher

**SPARK**

**RETAIL ELECTRIC COMPETITION**  
**Just What Marks Success?**  
 By ERIC CODY AND PAUL GREY

**S**ince early 1998, more than 15 US states and the District of Columbia have restructured their electricity markets and introduced varying forms of electricity retail competition. Each regulatory jurisdiction essentially adopted its own unique model for retail choice aimed at providing all consumers with both economic benefits and a widening range of product choices. Yet the resulting mishmash of inconsistent retail market structures ensures that competitive benefits ultimately reach only a small minority of consumers.

This state of affairs begs the question: what ultimately constitutes success in a competitive retail electricity market? Today in the US the question is rarely even asked, but when it is, the topic is clouded by uncertainty and can spark division and disagreement. There is no short answer; however, by examining some of the most successful retail electricity markets, such as the UK, Australia, New Zealand and Finland, plenty of evidence emerges as to what constitutes a successful market, and what paths lead to success.

**Viewing Customers Differently**  
 One of the best ways to picture a successful retail electricity market is to envision success through the customer's own eyes, as after all, markets exist to meet customer needs as much as suppliers'. Instead, some US policy makers believed breaking the utility's supply monopoly and the presence of a handful of competitive players alongside the regulated incumbent would be sufficient to unleash market forces and kindle full-scale retail competition. In truth, utility restructuring was necessary, but has not been sufficient to create truly competitive markets.

The tentative experiments with competition have been stifled by the fact that most US utilities are barred under "Codes of Conduct" from offering competitive supply services to their customers. Unable to compete, and considering the infrequency of major rate cases, it is virtually assumed that utilities' customer relationships are doomed to remain static. The counter-intuitive nature of the rate case process essentially guarantees that the utility-customer relationship can only change in slow motion, and since the first US retail electricity markets opened in 1998, most customers have lacked access to competitive offers and remain stuck in a regulated supply situation.

Regulated supply simply cannot match the speed or ability to differentiate and respond to customer needs that is possible in a competitive market setting. The regulated rate-making process, reflecting the utility's overall cost to serve its tariffs, implicitly assumes almost every individual customer is "average". Not surprisingly then, regulated rate-making results in "one size fits all" pricing, with many customers in each class subsidizing others, and few customers being served in the way they might have chosen, given a choice of product and supplier. Yet for many customers out there can truly be deemed "average". Real competition inevitably means discarding the notion that all customers are somehow "average" and embracing the concept that groups of customers—niche segments of each customer base—should be able to be served with products, prices and services that best meet their individual needs and willingness to pay.

The benefits of "real customer choice" are often subtle and complex, not well measured by traditional utility customer satisfaction ratings, and can change dynamically. Yet these benefits can be directly reflected in benchmark metrics for judging a retail electricity market's competitiveness and success. Figure 1 lists market success criteria drawn from a number of studies, such as Plexus Research's November 2003 report *Beyond the Standard Offer for the 21*

December 2004

Page 5

From the article "Just What Marks Success?" by Paul Grey and Eric Cody, Public Utilities Fortnightly Spark, December 2004

Thanks goes to: The Global Round-Table of Energy and Utilities Marketing; Henry Edwardes-Evans (Platts McGraw-Hill); Chris Rix (Energy Market Research Ltd.); Tor Arnt Johnsen (NVE/Norwegian School of Management); VDEW; PA Consulting; Datamonitor; E-Control; GreenPrices.com; ECH; Energie Norderlands; ENECO; Delta N.V.; Amsterdam Economics; STEM; Montel Powernews; Elradgivningsbyran; Dansk Energi; Björg Bisgaard (SEAS-NVE); Irish Commission for Energy Regulation; Irish Competition Authority; John Byrne (UCD Ireland); VREG; Eric Cody (Cody Energy Group); and, David Lipshut (Energy Reform Consulting Pty Ltd.).

# Peace™

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## Utility Customer Switching Research Project



### Utility Customer Switching Research Project

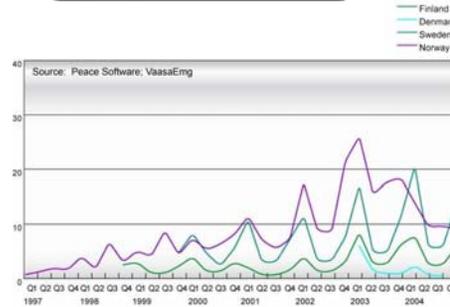
World Retail Energy Market Rankings  
June 2005

Peace™ vaasaemg

Mr. Paul Grey, Chief Market Strategist, Peace Software  
Dr. Philip Lewis, Group Director, VaasaEmg, University of Vaasa, Finland  
Mr. James Griffin, Manager, Editorial & Research, Peace Software

Category	Market*	Rank
HOT	Great Britain	1
	Victoria (Australia)	2
	South Australia (Australia)	3
ACTIVE	Sweden	4
	Norway	5
	Netherlands	6
	New Zealand	7
	Texas (USA)	8
	Flanders (Belgium)	9
SLDW	Finland	11
	Denmark	12
DORMANT	Austria, Germany, Spain, Alberta, Ontario (Canada), California, Connecticut, Illinois, Maine, Maryland, Massachusetts, Michigan, New York, New Jersey, New Hampshire, Ohio, Pennsylvania, Rhode Island (USA)	Not ranked

\* Designated by country, province (Canada), or state (U.S.)



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Utility Customer Switching Research Project

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Download the Utility Retail Markets Rankings Table

### Utility Retail Market Insights

**Background**

Since 2003, Spain, the Netherlands, Ireland, Portugal and South Australia joined the ranks of fully open energy retail markets, alongside Great Britain, Finland, Norway, Sweden, Denmark, Germany, Austria, Texas, Georgia gas (USA), New Zealand and the Australian states of Victoria and New South Wales.

The remaining European Union (EU) energy markets are transitioning towards full residential competition by 2007, additional Australian states are on timetables to full retail competition, and a number of countries in Asia have commenced the retail market opening process.

Register [here](#) to download your copy of the full World Energy Retail Market Rankings report.

Utility Customer Switching Research Reveals World's Top 10 Energy Retail Markets [>>read more](#)

**Contact us**

To inquire about report availability, interview opportunities, and/or speaking engagements, please contact [James Griffin](mailto:James.Griffin@peace.com).

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## Utility Customer Switching Research Project

### Graphics

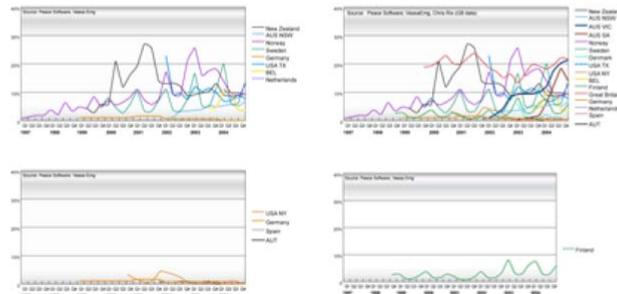
#### Usage guidelines

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#### Customer Switch Charts

These charts represent country-specific customer switch data. Click on a thumbnail to access a higher resolution version. If you require a specific country covered in the report (not listed below), please contact [Mr. James Griffin](#).



Other countries available: Australia (Victoria, South Australia, New South Wales), Austria, Belgium (Flanders), Finland, Great Britain, Germany, Norway, Netherlands, New Zealand, New York (U.S.), Spain, Sweden, Texas (U.S.).

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us

Griffin  
544.8542  
[peace.com](#)

t us

7.544.8542  
[@peace.com](#)

#### Contact us

UK  
James Griffin  
+44.207.544.8542  
[jgriffin@peace.com](mailto:jgriffin@peace.com)



*MYTH:*

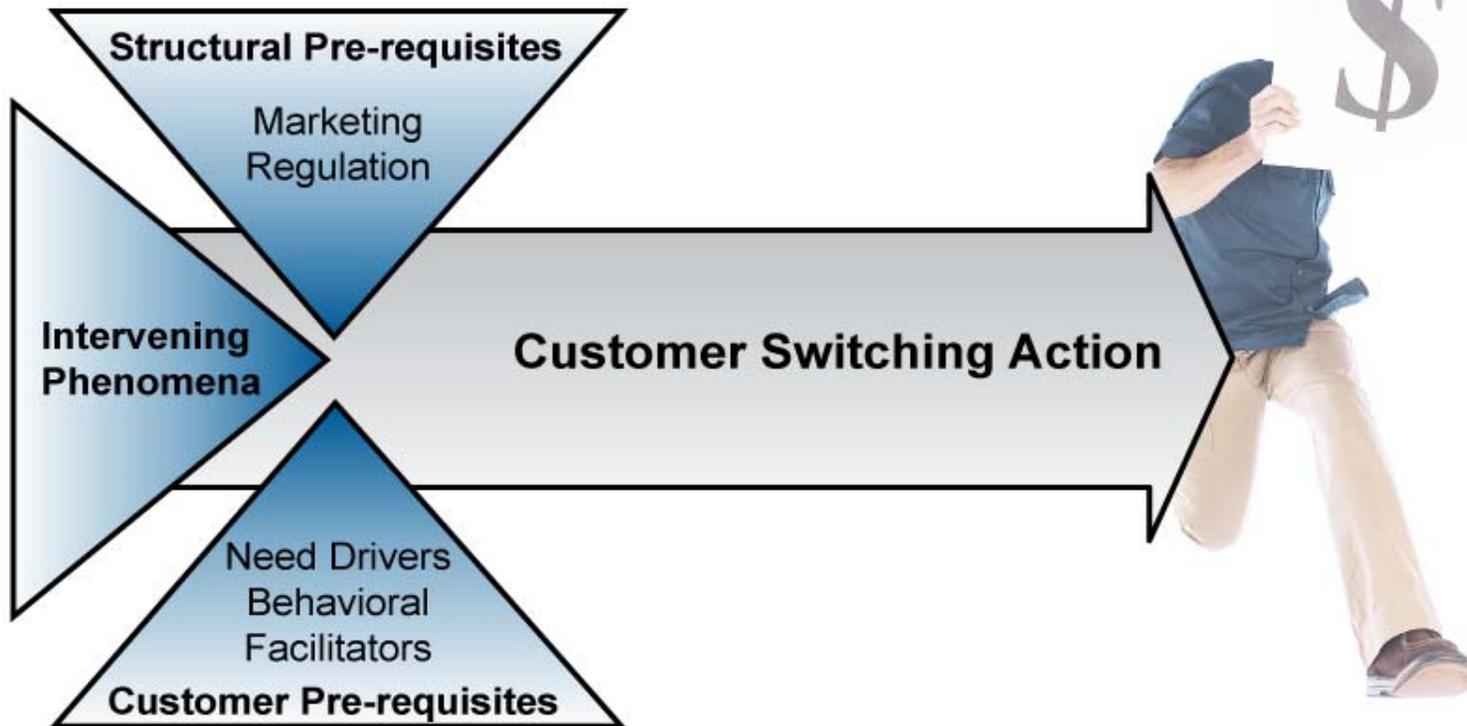
*Few Customers  
Switch in Liberalised  
Energy Markets*



# *Determinants of Activity*



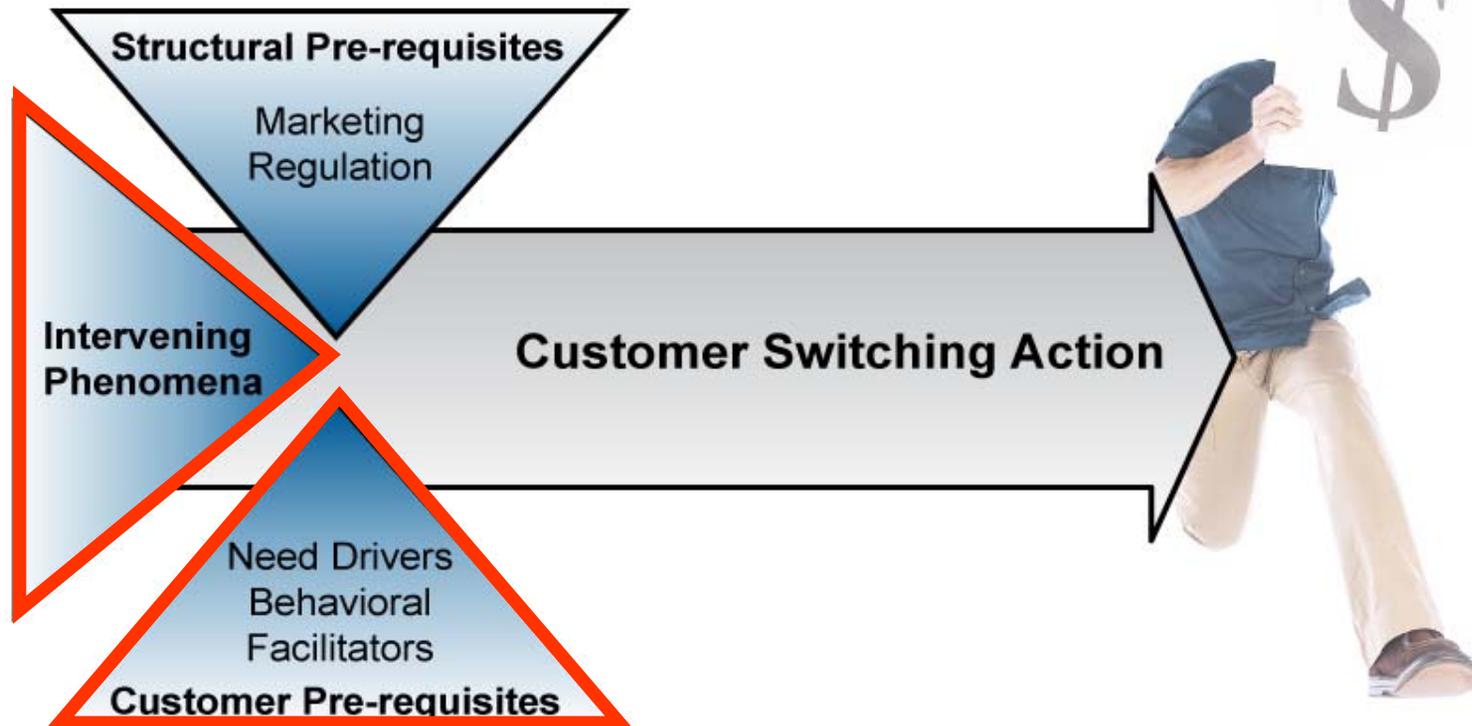
## Fixed and Temporal Influencers



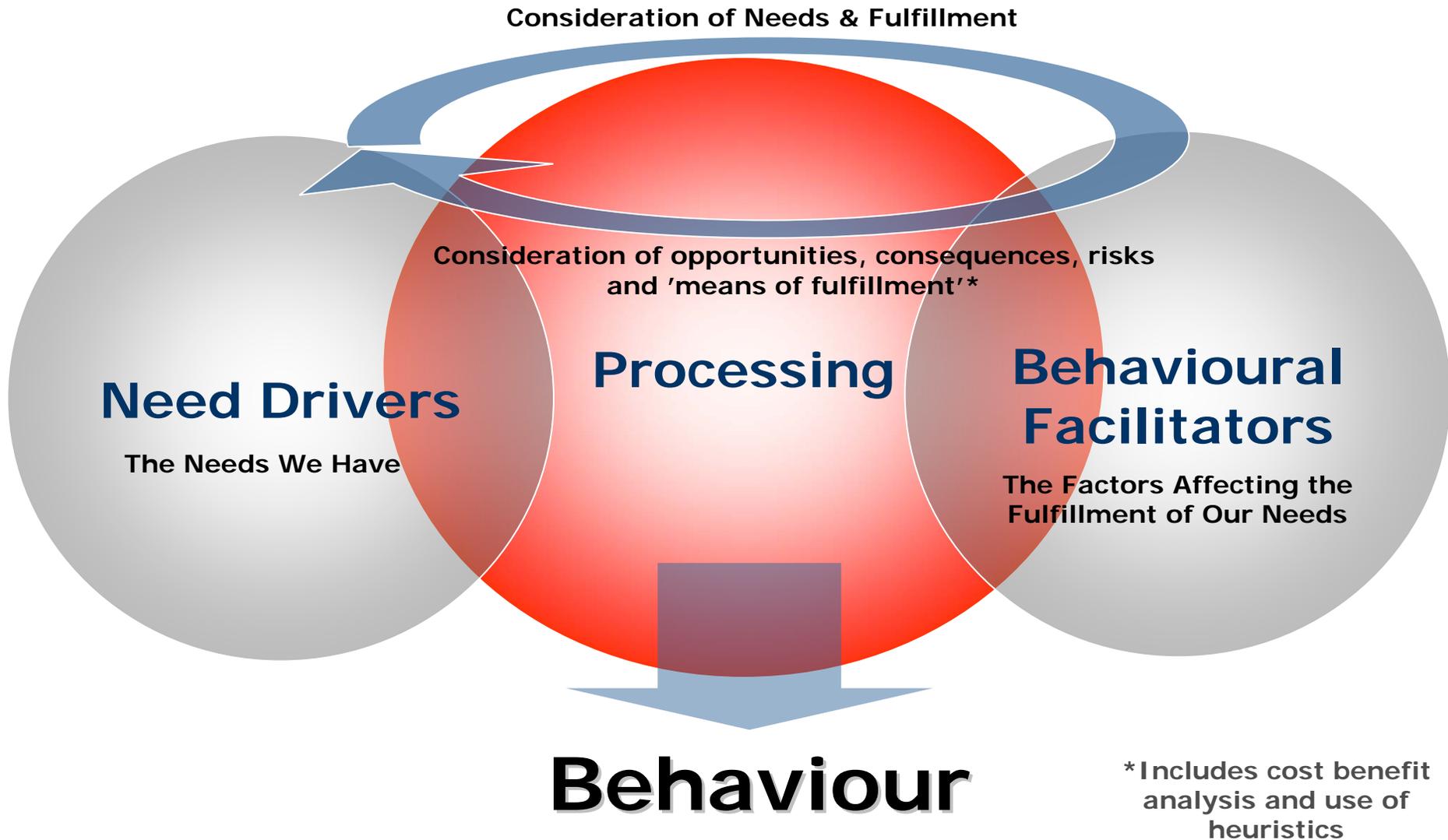


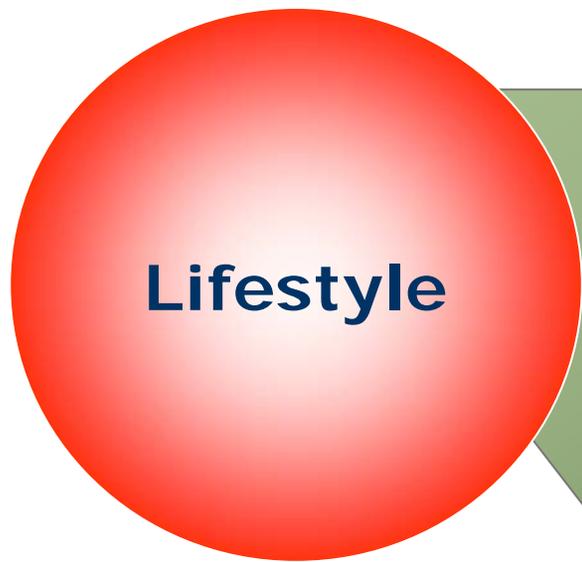
# *Psychological Determinants*

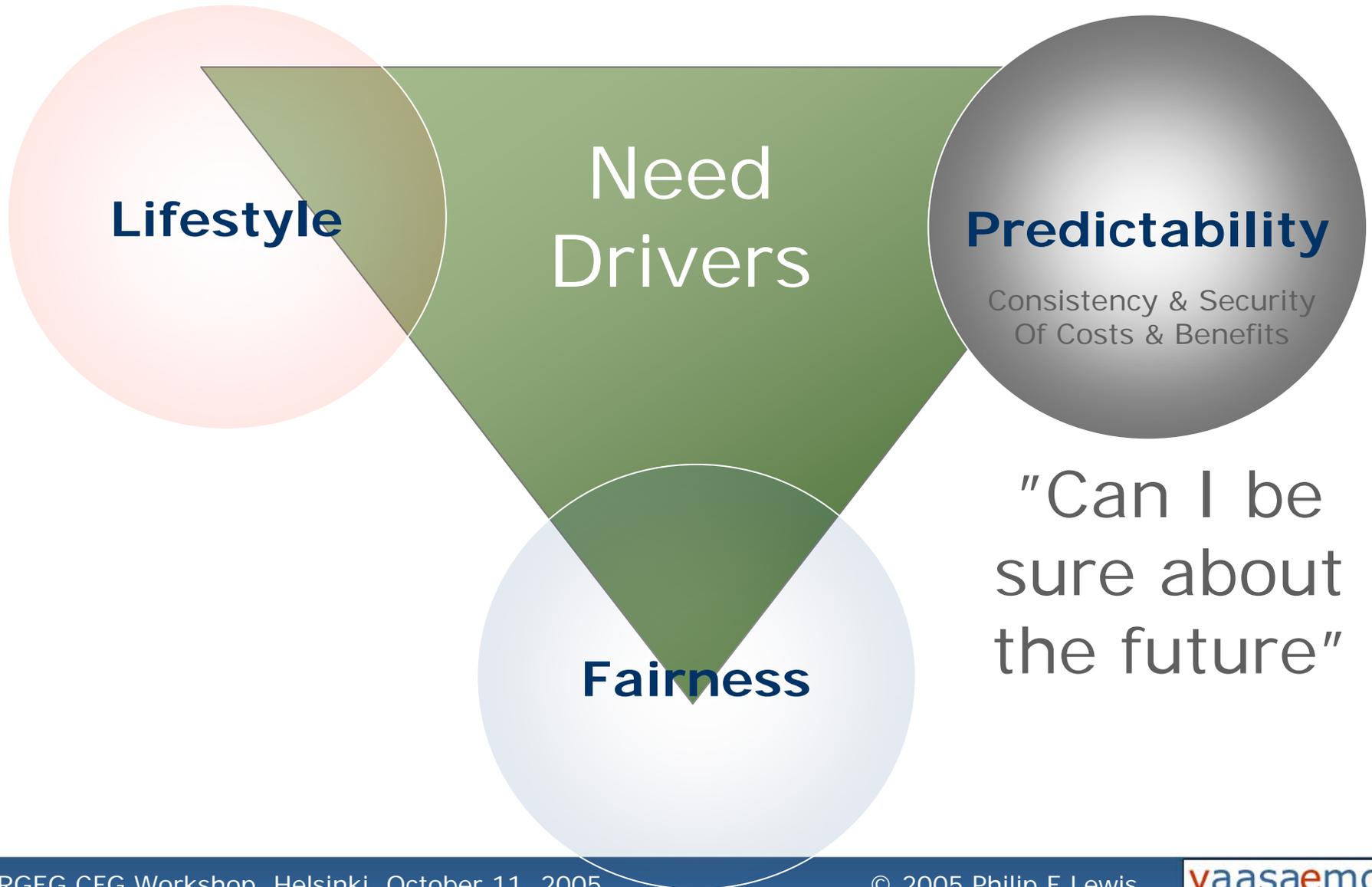
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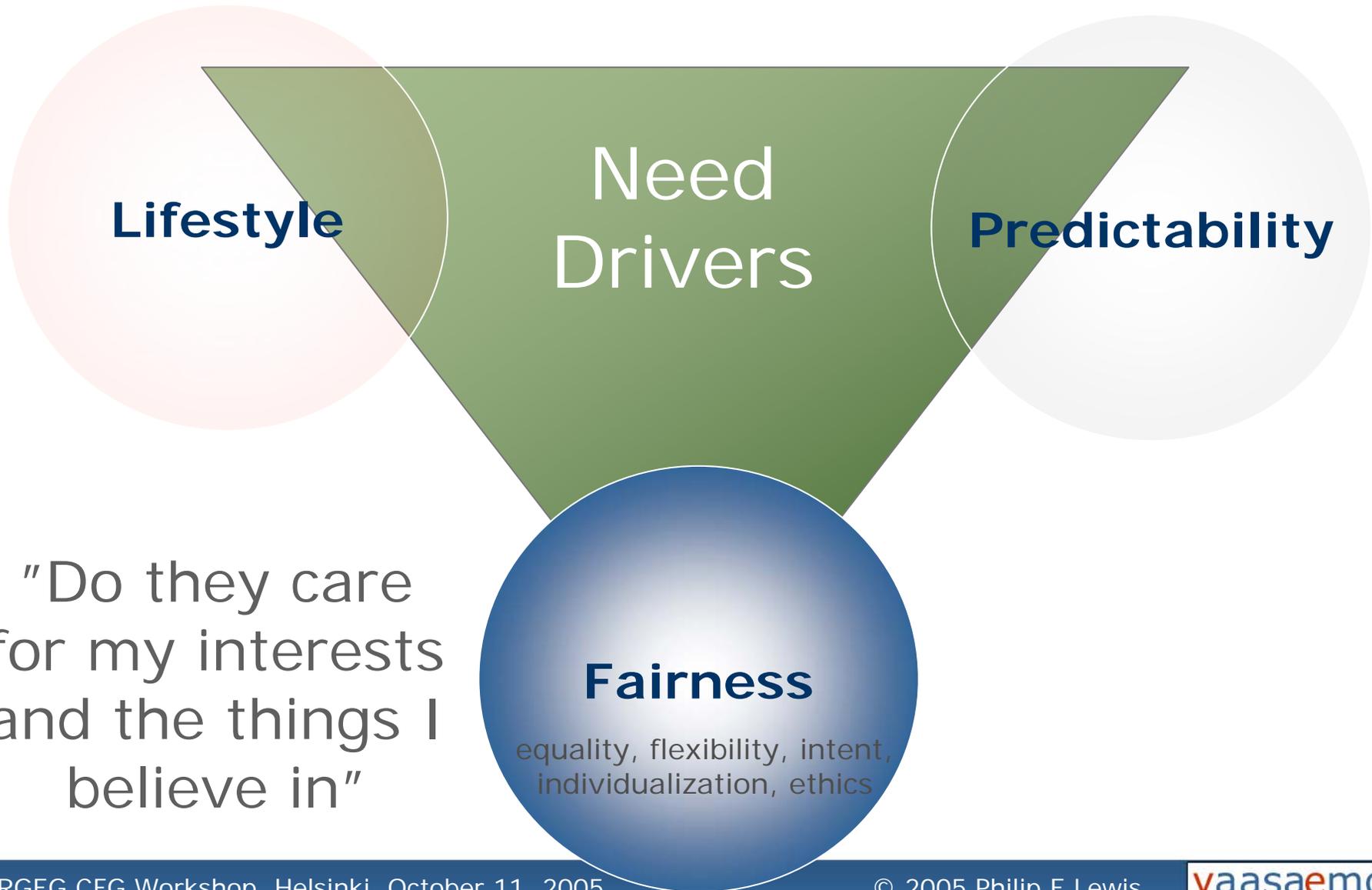


# Customer Pre-Requisites









**Lifestyle**

**Need Drivers**

**Predictability**

**Fairness**

equality, flexibility, intent, individualization, ethics

"Do they care for my interests and the things I believe in"

Directors Salaries  
(Netherlands)

Price Rises  
(Sweden)

Disconnections  
(UK)

Low involvement product

Low involvement service

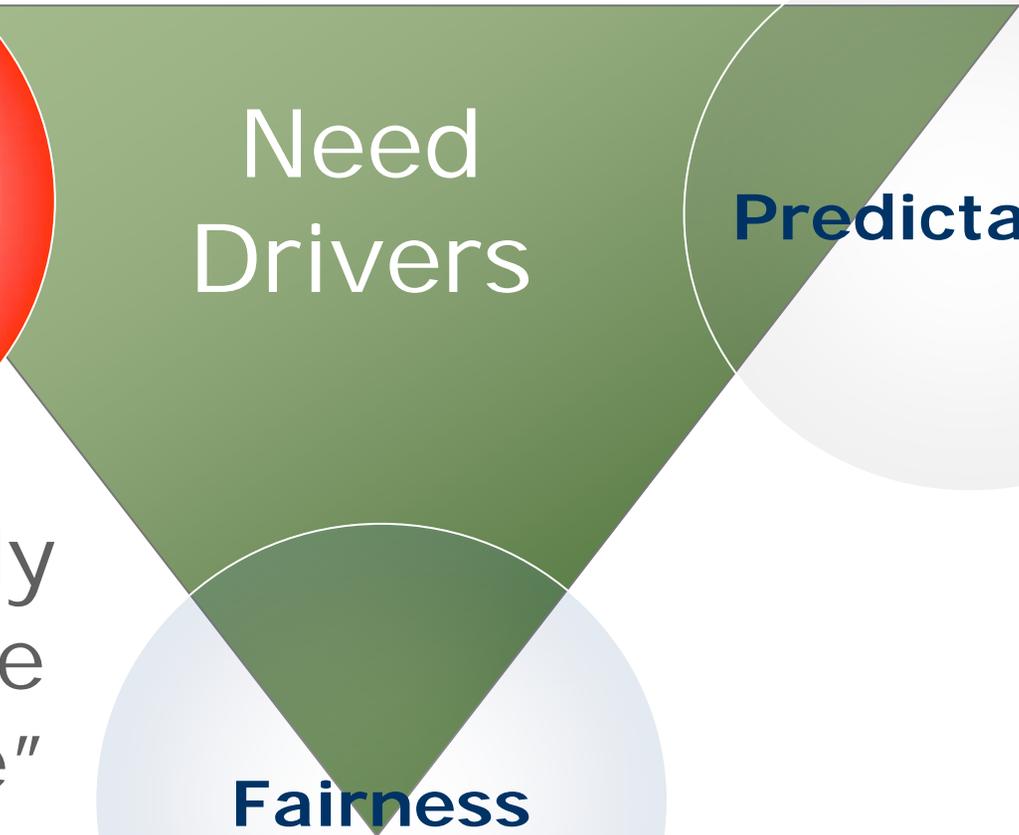
High involvement issues

High involvement brands



**Lifestyle**  
More money, more time, less stress, more enjoyment

"what I really want is more from my life"



**Need Drivers**

**Predictability**

**Fairness**



# Need Drivers: Simplicity

---

**JET**



# Need Drivers: Simplicity

*Decision-Making  
Heuristics*

## U-Switch

# Need Drivers: Simplicity

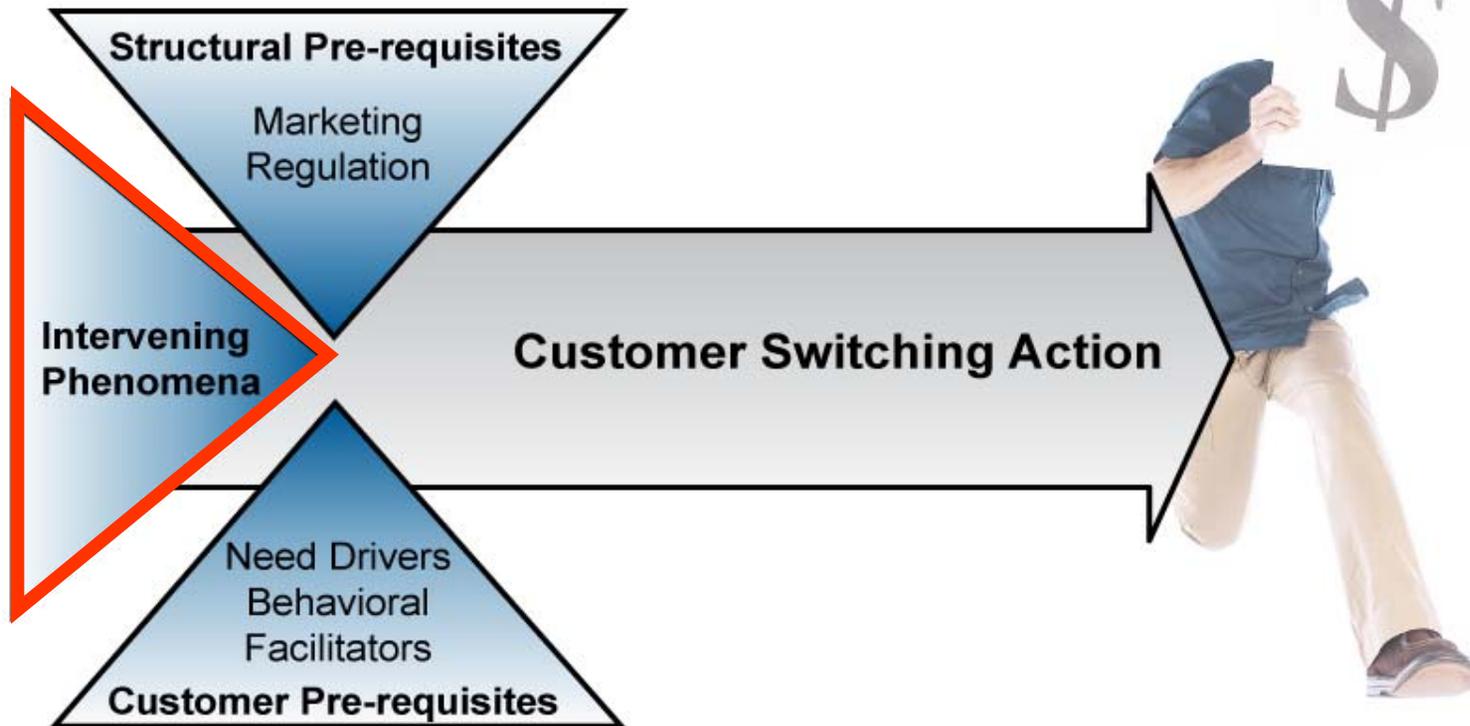
*Decision-Making  
Heuristics*



[www.hyvävalinta.fi](http://www.hyvävalinta.fi)



## Fixed and Temporal Influencers



# Intervening Phenomena\* - Customer Pre-requisites

- **Switching requires comparability / commodity switching**
- **Critical awareness matters more than relative awareness**
- **Price elasticity depends on price volatility, levels, changes, savings, price/savings significance, peaks, predictions**
- **Present price and bill predictability increases loyalty, volatility decreases loyalty**
- **Disloyalty follows seasonal, regional and cyclical trends**
- **Satisfaction has a moderate correlation with loyalty**
- **Perceived Emancipation / switching multiplier effect**

\*This is just a small selection of intervening phenomena

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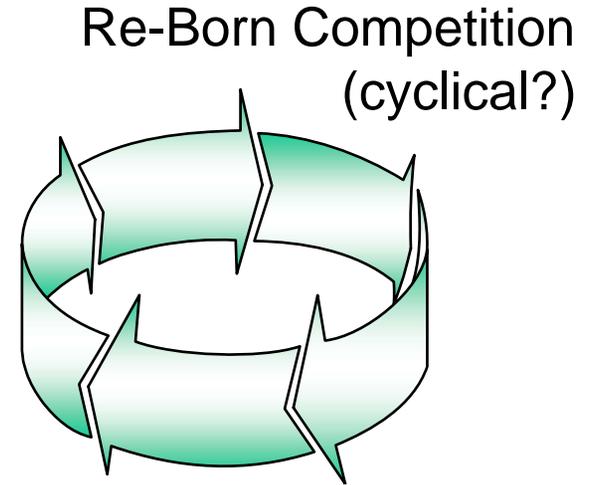
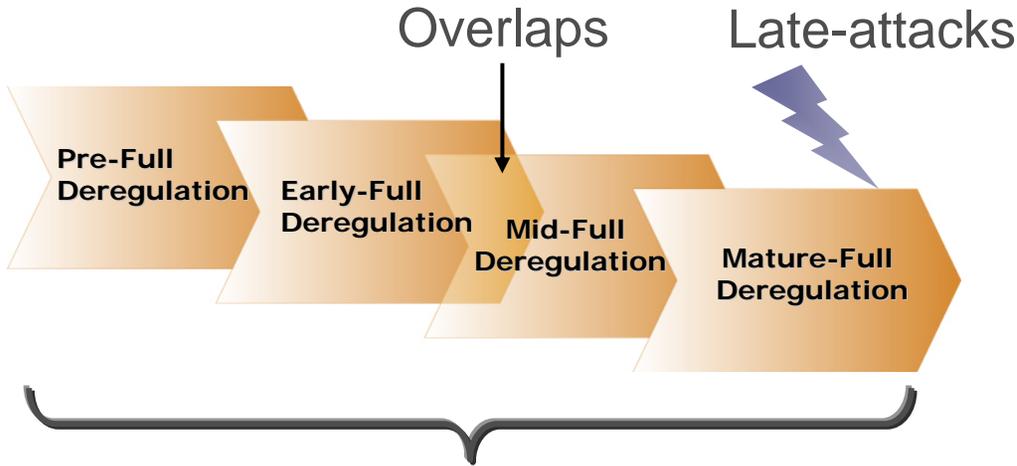
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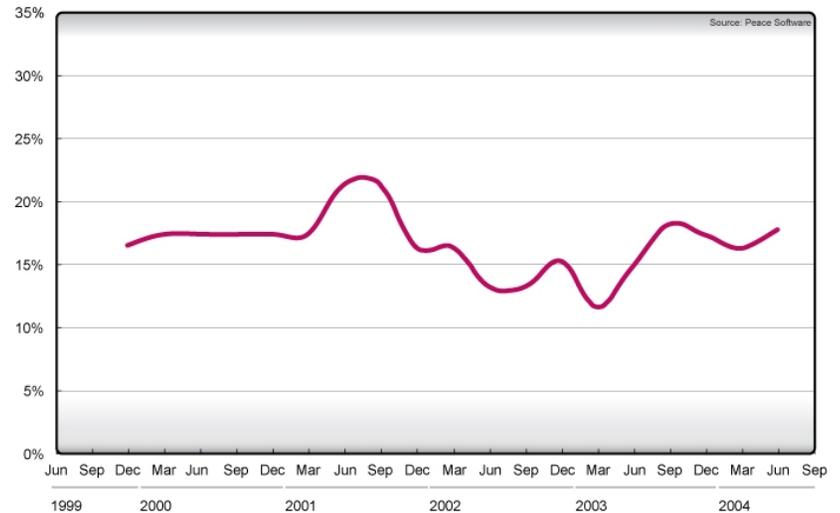
# Long-Term Cyclicity



1 Pre-liberalisation	2 Phased opening of industrial and commercial tranches	3 Full market opening	4 Maturing competition
<b>Victoria</b>			
<b>Electricity</b>			
	1994 >5 MW	1995 >1MW	1996 >750MWh
		1998 >160MWh	2001 >40MWh
			Jan 2002 All customers have choice
<b>Victoria</b>			
<b>Gas</b>			
	1999 >500TJ	Mar 2000 >100TJ	2001 >5TJ
		Sep 2000 >10TJ	
			Oct 2002 All customers have choice
<b>Republic of Ireland</b>			
<b>Electricity</b>			
	1995 >25 mscm	2002 >2 mscm	2003 >0.5 mscm
			2004 All non-domestic
<b>Republic of Ireland</b>			
<b>Gas</b>			
	1995 >25 mscm	2002 >2 mscm	2003 >0.5 mscm
			2004 All non-domestic
			July 2005 All customers have choice

Great Britain Energy Customer Switching Rates

Annualised percentage of customers switching per quarter



Source: Peace Software 2004

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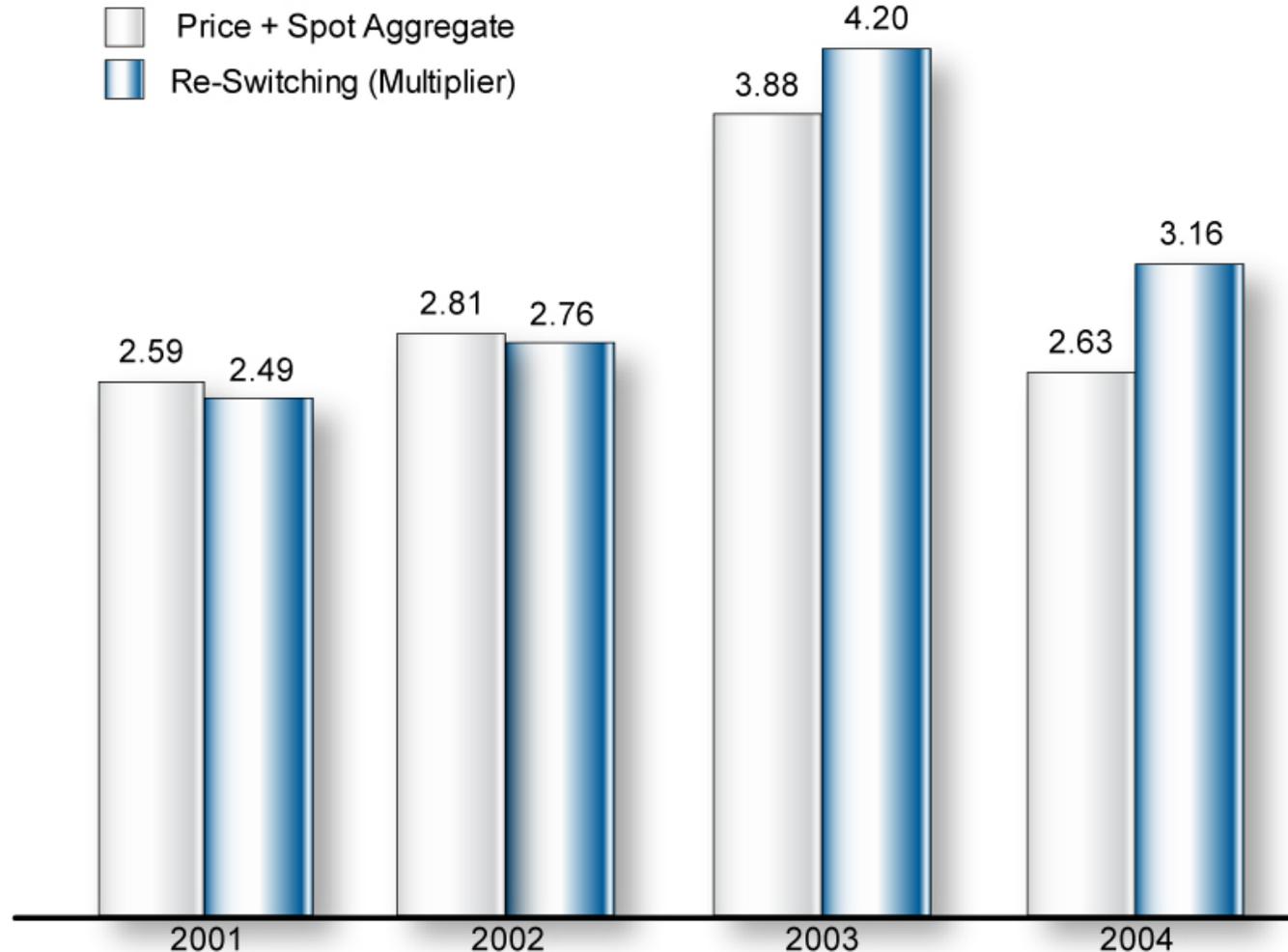
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# Need Drivers: Emancipation

## Re-switching in Norway

Source: VaasaEmg, NVE (Norwegian regulator)



# Peace-VaasaEMG

## World Energy Competitive Retail Market Ranking 2004

Category	Market*	Rank
HOT	Great Britain	1
	Victoria (Australia)	2
	South Australia (Australia)	3
ACTIVE	Sweden	4
	Norway	5
	Netherlands	6
	New Zealand	7
	Texas (USA)	8
	Flanders (Belgium)	9
	New South Wales (Australia)	10
SLOW	Finland	11
	Denmark	12
DORMANT	Austria; Germany; Spain; Alberta, Ontario (Canada); California, Connecticut, Illinois, Maine, Maryland, Massachusetts, Michigan, New York, New Jersey, New Hampshire, Ohio, Pennsylvania, Rhode Island (USA)	Not ranked

\* Designated by country, province (Canada), or state (U.S.)



# Best Practice

## Key Issues

The background features a large, glowing green beam of light that originates from the left and points towards the right. In the foreground, a metallic chain is attached to a large, dark, reflective sphere. The top of the slide has a dark blue header with white text and a faint image of communication towers.

# Comparable Switching Trend Data

There is a need to collect comparative switching data using consistent definitions and methods

# Prevention of Incumbent Privileges

- Wholesale availability and Margins for new entrants
- Genuine unbundling
- No incumbent offer pricing & price-matching
- No incumbent L-term contracts
- Inhibited incumbent loyalty-schemes & product bundling

# Prevention of Incumbent Priviledges

- No low-price incumbent subsidiaries
- No obligation to supply (except special-needs)
- Single bills for switchers
- Uniform switching procedures within & between countries

# Customer Awareness & Motivation

- Quality of marketing
- Independent campaigns (e.g. energywatch)
- Regulatory communications
- Short-term switching incentives / Customer credits
- Savings Significance (minimal supply taxes, bill clarity & comparability)
- Cool off-periods & post-switch satisfaction enquiries



# Bill Predictability & Price Volatility

- 
- Short-term contracts / market-based tariffs
  - Minimal price change periods
  - Price setting freedom

# Simplicity & Heuristics

For customers - to reduce search & switching costs (including effort, time and risk)

- Comparison & switching websites / labeling systems
- Comparability and commoditization
- Minimum switch times
- Switching-anytime, as often as want, cost free (requires AMR, estimated & self meter reading)
- Switching without signatures
- No need to contact more than one party

# Simplicity

For competitors – to reduce process costs, time and risk

- European-wide compatible EDI systems
- < 1 week post-request switch process

# Other Possible Issues

- Neutrality of DSO's in customer win-back
- Equality of network tariffs
- No old tariffs linking distribution & supply
- No Switch-data transfer obstruction



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Utility Customer Switching  
Research Project

Dr. Philip Lewis  
Paul Grey

[philip.lewis@vaasaemg.com](mailto:philip.lewis@vaasaemg.com)  
[paul.grey@peace.com](mailto:paul.grey@peace.com)

The Utility Customer Switching Research Project  
website:

[www.peace.com/customer-switching](http://www.peace.com/customer-switching)